

***BENEFICIARY PAYMENT  
ALTERNATIVES FOR THE NEW  
MILLENNIUM***

# Agenda

**Electronic Payment Migration**

**Debit Cards as Payment Channel**

**Government Programs in Use**

**Education and Communication for  
Stakeholders and Beneficiaries**

# Where Have We Come From?

- Federal, state and local governments are responsible for issuing a large proportion of the recurring payments made to individuals today
- As of 1/1/99, EFT '99 required that all of the government's payments (other than tax payments) be made electronically
- So, what has happened over the last six years?

# Government Evolution to Electronic Payments

- Government organizations have initiated programs to assist in the migration of paper payments to electronic alternatives:
  - U.S. Treasury/FMS “Go Direct” program ([www.godirect.org](http://www.godirect.org))
  - State governments are encouraging their beneficiaries to convert from paper check payments to direct deposit
  - The outreach efforts are important for those beneficiaries with bank accounts
  - What about beneficiaries without bank accounts?

# How Governments Use Debit Cards?

- Annually, more than **11 million cards are issued, 700 million transactions are processed** nationwide and **\$24 billion in government benefits and payments are disbursed** to constituents.
- Typical disbursements include

*Payroll*

*Refunds or rebates*

*Election boards*

*Jury payments*

*Workers compensation*

*Annuities and pensions*

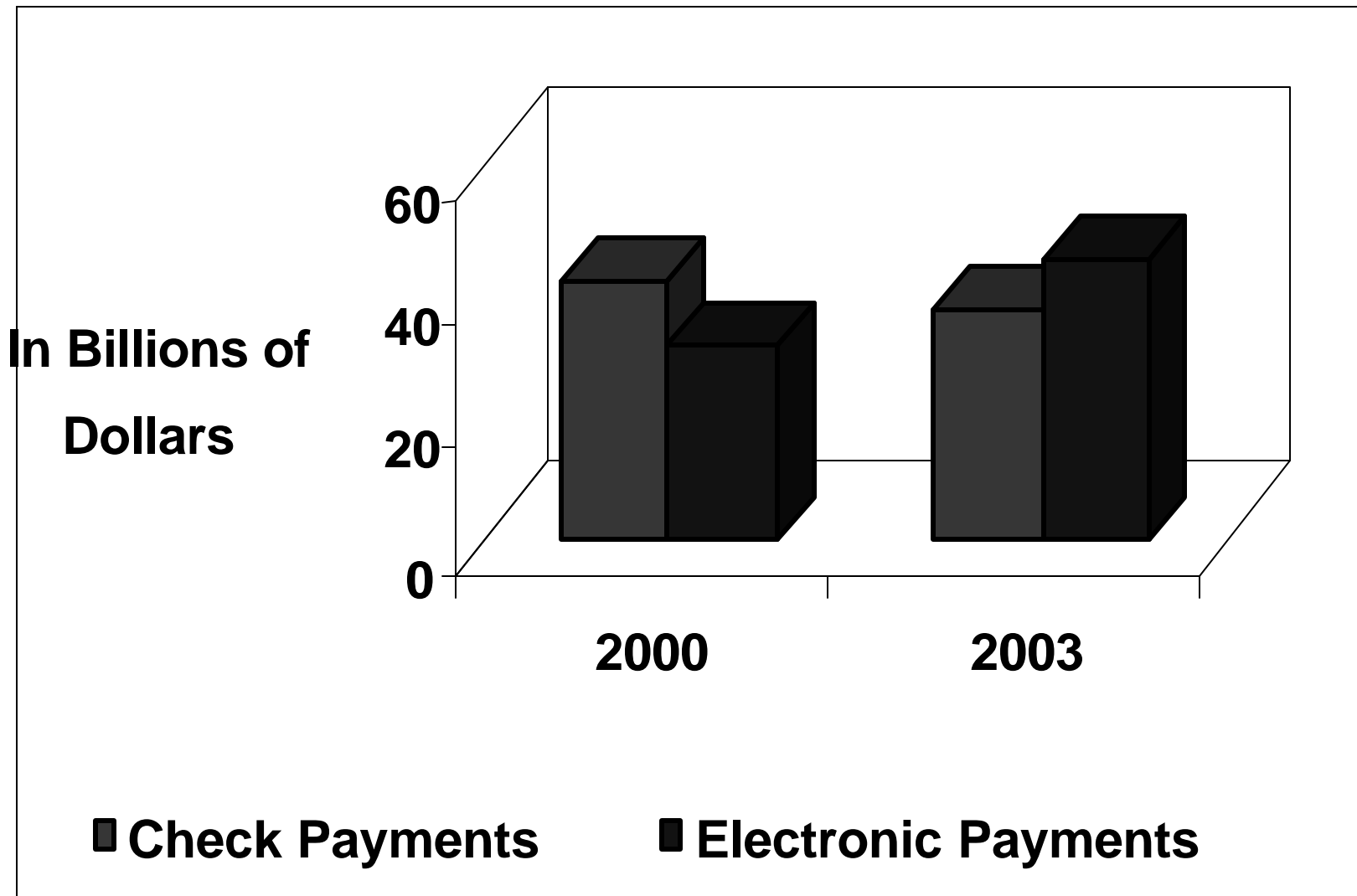
*Summer employment*

*Witness payments*

*Unemployment compensation*

*Emergency funds*

# Paper to Electronic . . . Momentum is Building



# Findings of 2004 Federal Reserve Payments Study

| Payment Type        | Number of Payments | Value of Payments | Annual rate of growth/decline (2000-2003) |
|---------------------|--------------------|-------------------|---|
| Check payments      | 36.7B              | \$39.3T           | (4.3%)                                    |
| Electronic Payments | 44.5B              | \$27.4T           | 23.5%                                     |
| Debit Cards         | 15.6B              | \$0.6%            | 23.5%                                     |
| ACH Transactions    | 9.1B               | \$25.1T           | 13.4%                                     |
| Credit Cards        | 19B                | \$1.7T            | 6.7%                                      |

# Paper Checks

- Cost of issuing paper checks has increased substantially in recent years due primarily to exponential growth of check fraud
- Using checks is not only more expensive than ACH, it also requires a high degree of human intervention to:
  - Manage exceptions which is time consuming, complex and difficult to quantify
  - Includes checks returned as undeliverable, stale-dated or lost and fraud (stolen, forged and/or counterfeit checks)
- Consumers have to wait for the mail to delivery checks which may take 3-5 days
- Consumers must find a place to cash their check. For unbanked constituents, check cashing fees between \$5 and \$10 per check may be charged



# Some Paper Check Costs

- Unbanked Americans spend approximately \$8B annually in check cashing and other financial services (obtaining money orders)
- Four million payroll checks are lost/stolen every year
- Generating replacement checks and checks for the exception pay costs an average of \$8-10 per check

# A Little More About Debit Cards . . .

- PIN secured debit transactions increased 23.6% in 2004; signature debit increased 20%
- Consumers spent \$588.7B on debit cards in 2003
- By 2008, debit purchases are expected to more than double to \$1.23B
- Debit cards transactions will exceed credit card transactions by 2008
  - Debit cards projected to total \$31B
  - Credit cards projected to total \$25B

# Conclusions

- Most US non-cash payments were made by electronic instruments in 2003
- Most non-cash payments were made by check in 2000
- If current growth rates are sustained, credit cards and debit cards will each exceed number of paid checks before the end of the decade

# Draft Business Case for Debit Cards

|    | Item                         | Unit Cost | Volume    | Total           |
|----|------------------------------|-----------|-----------|-----------------|
| 1. | Check reconciliation         | \$ 0.04   | 1,680,000 | \$ 67,200.00    |
| 2. | Check cashing/sequencing     | \$ 0.27   | 1,680,000 | \$ 453,600.00   |
| 3. | Lost/stolen stop payments*~  | \$ 25.00  | 16,800    | \$ 420,000.00   |
| 4. | Off-cycle check production*^ | \$ 12.00  | 16,800    | \$ 201,600.00   |
| 5. | Check production             | \$ 1.35   | 1,680,000 | \$ 2,268,000.00 |
| 6. | Postage                      | \$ 0.37   | 1,696,800 | \$ 627,816.00   |

*\* est. at 1% of check volume*

~ source: APA (1999)

^ source: NACHA

**Annual Savings: \$ 4,038,216.00**

**Weekly Savings: \$ 77,658.00**

# Debit Card Alternatives

## Single Issue Card

- Card loaded once (via ACH)
- May be used at ATMs and PIN based Point-of-Sale Merchants: drug stores, grocery stores, some retailers

## “Reloadable” Cards

- Cards can be funded on an ongoing basis
- Beneficial for distribution of periodic benefit payments
- MasterCard or Visa branded
- Can be used in PIN based or signature based transactions
- Used at ATMs, Point-of-Sale and Visa/MasterCard retailers

# Benefits to Government Issuer

- Low cost alternative to issuing checks
- Reduction of check fraud
- Simplified reconciliation
- Management of, and responsibility for lost, stolen cards handled by card issuer
- An instant card provides 24x7 issuance

# Benefits to Payment Recipient

- Lack identification and credit requirements that bar millions from opening traditional bank accounts
- Provides immediate availability of funds
- Eliminates check cashing fees
- Card balance information available easily
- Cardholder not liable for reported unauthorized purchases or withdrawals
- Reduces cardholder service fees

# Government Programs in Use . . .

- International Governments
- U.S. Federal Government
- U.S. State Governments



# Pension Program -- England

- Debit cards replaced paper based voucher books issued every six months
- Government mandated use of all electronic payments (either ACH or debit card)
- 4.3M cardholders today
- In June, 2005
  - 20.6M ACH transactions loaded to debit cards
  - 2.0B pounds deposited
  - 16M debit transactions conducted by cardholders
  - 3.83 average transactions/cardholder in June
- Program virtually eliminated all payment fraud

# Federal Government – Navy Cash™

- Program managed by U.S. Treasury/ Financial Management Service and Naval Supply Systems Command
- Used by U.S. Navy and Marine Corps
- Combines microchip technology and magnetic strip technology
- Supports the organizational goals and missions of the Navy and Marine Corps and improves Sailor's/Marine's quality of life/work
- As of June , 2005, program processed a total of 16.9M transactions at a total value of \$37.1M

# Social Security Administration

- Participant in U.S. Treasury/Financial Management Service ETA program for U.S. based payments
- Utilizes debit card as disbursement vehicle for SSA payments to expatriates in South America and Latin America
  - Money available to beneficiary on day of deposit
  - US checks do not have to be negotiated
  - Agency initiates standard ACH transaction
  - Eliminates lost/stolen check issues
  - Eliminates check cashing fees
- Program in process of expansion into Asia

# State Government Programs

- 15-20 State Governments have implemented debit card programs for payment disbursements including:
  - Child support payments
  - Unemployment payments
  - Workman's compensation payments
  - Housing subsidy programs
  - Payroll programs

# State of Massachusetts Child Support Payments Disbursement . . . Case Study

- Program launched in August, 2004
- Enrollment began September, 2004
- Started with pilot to targeted groups (August, 2004 to January, 2005)
- As of June, 2005, 21,500 enrolled cardholders
- Full rollout began January, 2005
- Rollout continues through September, 2005
- Upon full deployment, 35,000 cards expected to be in use
- CHOICE TO BENEFICIARY: Select direct deposit or receive payment card

# Current Consumer Opportunity

## Banked

Traditional  
account and  
financial  
services  
users

## Underbanked

Have savings  
and/or checking  
accounts but  
conduct most  
financial  
transactions  
outside of banks

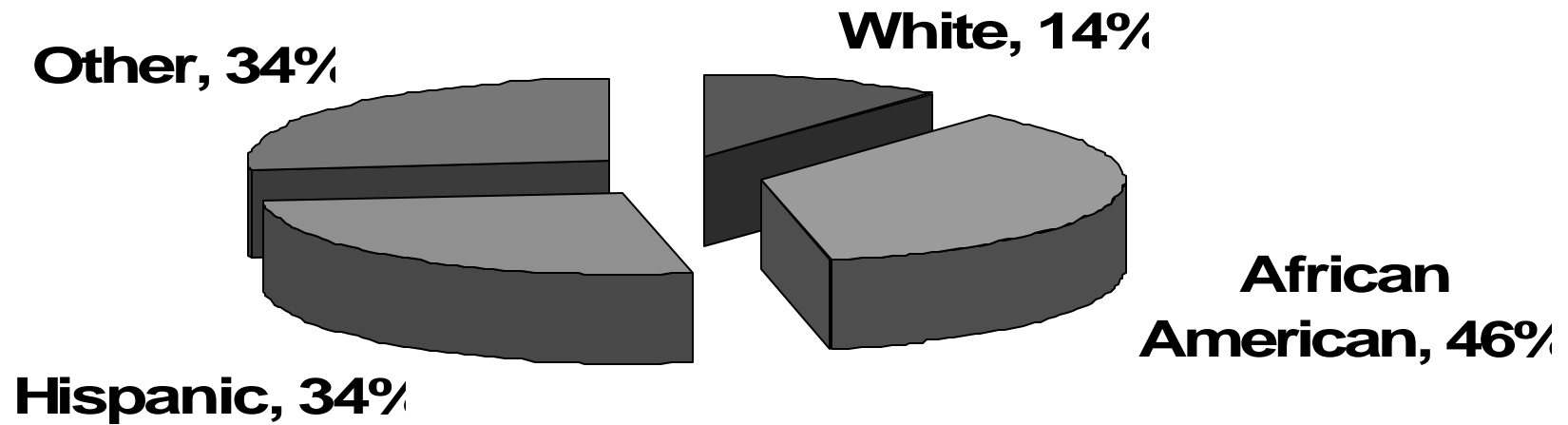
## Unbanked

Dispro-  
portionately  
poor, minority,  
lower income  
and young

# The Unbanked

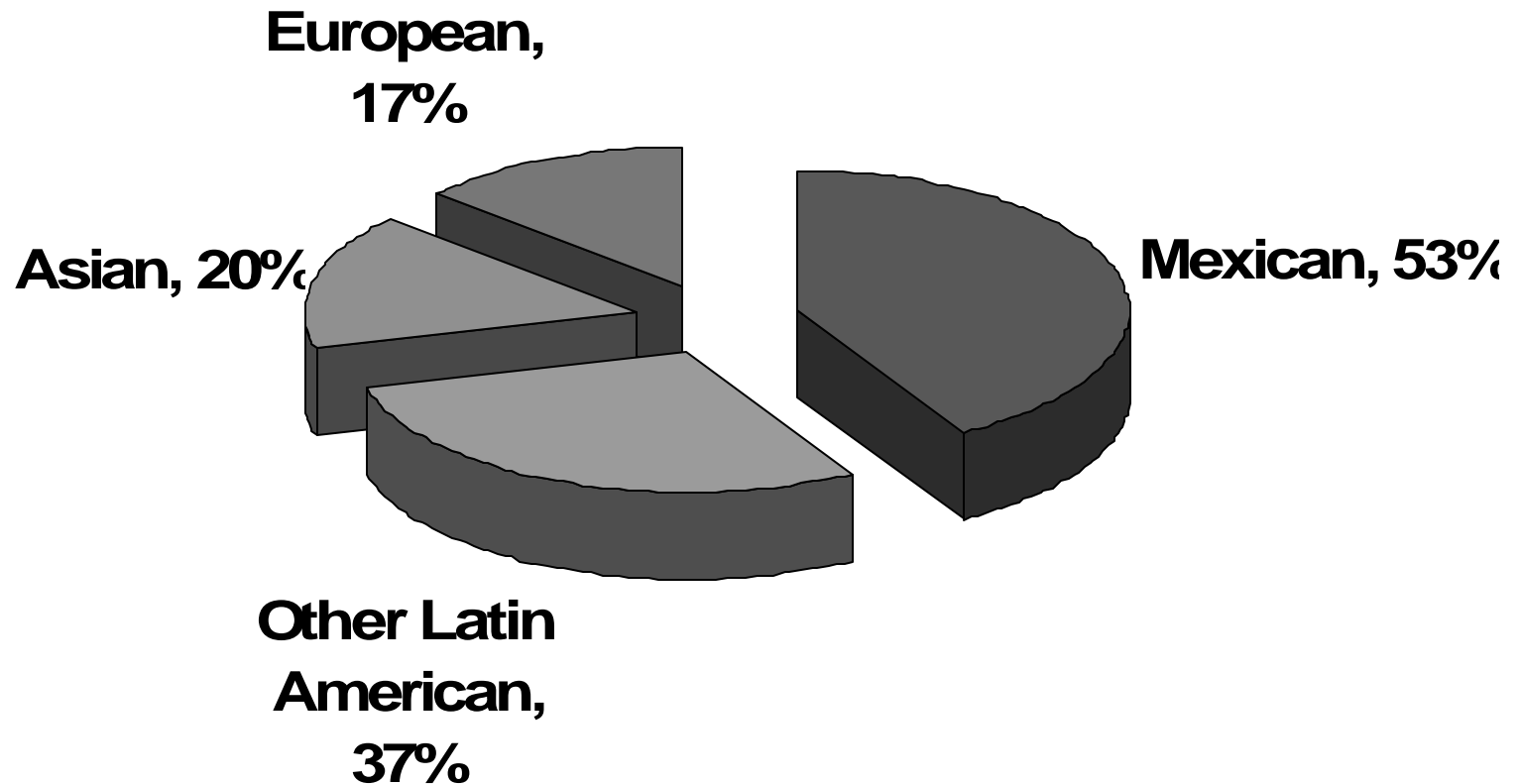
As many as 20 million American households are unbanked . . .

# US Born Unbanked Customers





# Immigrant Unbanked Customers



# Why Unbanked?

- Burden of identification requirements
- Immediate need to acquire/use funds
- Suspect of financial systems/reporting
- Control over money

# Rationale for Check Use

|                             | <u>2003</u> | <u>2004</u> |
|-----------------------------|-------------|-------------|
| Receipt/Record Keeping      | 6%          | 10%         |
| Other Options Not Available | 24%         | 24%         |
| Out of Habit                | 19%         | 20%         |

# Benefits of Debit Cards

- Lowers burden of identification requirements
- Growing convenience of acquiring/using funds
- Immediate availability of funds at a cost in many cases lower than current alternatives
- Difficult to overdraft, reducing likelihood of fees

# How to Move Forward . . .

- Authorizing direct deposit remains largely a voluntary choice for the consumer
- How can you help communicate with and identify benefits for these consumers?

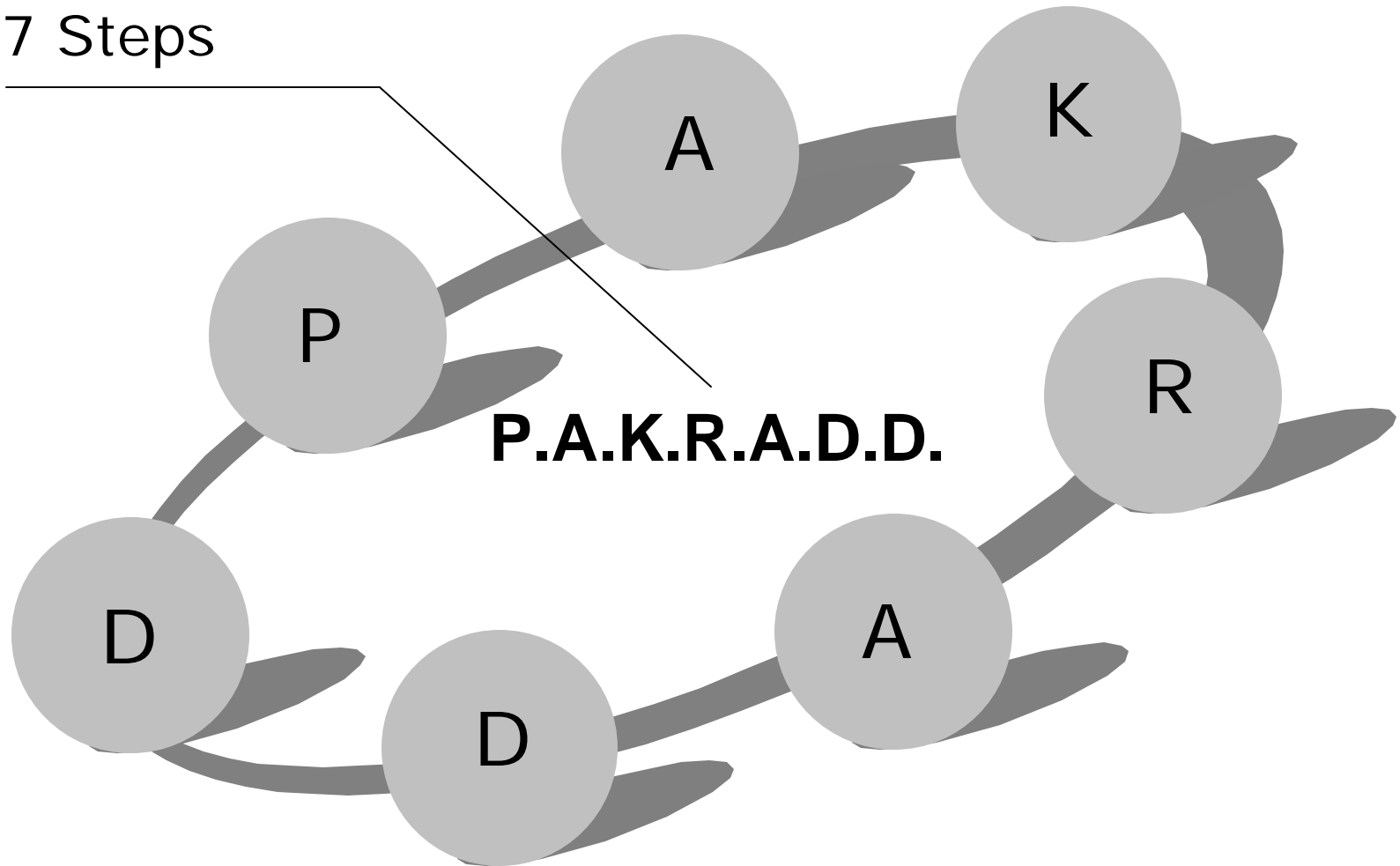
Agencies that have implemented electronic payment alternatives have proven that if investment is made in the necessary education . . .

it can overcome objections and barriers

A methodology for developing  
necessary educational  
initiatives to your individual  
audiences

# Education Development Methodology

7 Steps





# **P. A. K. R. A. D. D.**

- A seven-step approach to help
  - Identify the concerns and needs of unique audiences
  - Uncover ways to help audiences accept new electronic payment systems
  - Create success as new electronic disbursement programs are launched

# 1. Program Mission

- What is the primary mission of disbursement activities for your agency?
- What is the most effective and efficient way to achieve this mission?

## 2. Audience Review

- Who are your primary beneficiary audiences?
- Do you have more than one audience that is touched each time a disbursement is made?
- Are there similar characteristics among some of your beneficiaries that will allow you to group them?

### 3. Key Audience Segments

- Identify the top 2 or 3 largest or most homogenous groups within your total consumer population
- Outline the common characteristics or demographics for each group

## 4. Research

- Talk to representative members from each group
- What are their objections?
- What are their concerns?
- What do they need to know to feel safe about using electronic forms of payment?

## 5. Analysis

- Compare and contrast
- Are the concerns for each of the groups the same?
- Are their common threats or objections across all groups?
- What kind and how much information does each group need?

## 6. Develop Communication Plans

- You have all of the information you need
- What is the best way to get the information to your consumers?
  - Which tools to use
  - How long will they take to develop
  - What will they cost to develop
  - What is the best way to deliver them

## 7. Deliver to Market

- Roll out your plan
  - Talk to your consumers in the language they use and understand
  - Dispel the concerns that they have identified with facts and examples
  - Reinforce the benefits of electronic disbursement



# Tools and Resources

- An audience focused resource list
- Existing education materials
  - <http://www.godirect.org>
  - <http://www.nacha.org>
  - <http://www.epaynetwork.com>

# Sources Utilized

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